CRYPTOLOGIC

ANNUAL REPORT 1999

Profitable growth @ **Internet speed**

Our Mission

Our mission is to enhance and expand our position as the leading Internet entertainment organization and to become an industry leader in the provision of Internet transaction processing, while continually enhancing shareholder value.

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Corporate Profile

CryptoLogic Inc. is a leading software developer in the fast-growing Internet gaming and e-commerce industries. The Company has set the pace in delivering new innovations to our core markets and has moved quickly to capture major market share.

CryptoLogic's Internet gaming and e-cash software products are used by customers in over 240 countries around the world. In the last three years, the Company's software has processed over US$3 billion in secure electronic transactions from more than 480,000 registered end-users, a testimonial to the success of our technology.

Through our wholly-owned subsidiary, Intertainet Overseas Licensing Limited (IOLL), CryptoLogic licenses our proprietary casino gaming software that allows users to play games of chance over the Internet in real-time. The Company's e-commerce application allows users to transfer, settle and store electronic cash in a secure environment.

CryptoLogic is listed on The Toronto Stock Exchange under the symbol CRY and on Nasdaq under the symbol CRYP.

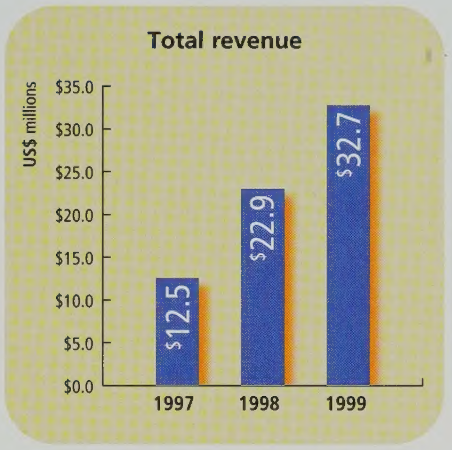
FINANCIAL HIGHLIGHTS

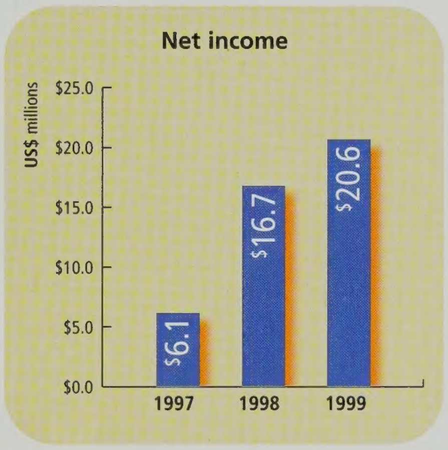
(US$ thousands, except per share information where stated in US$)

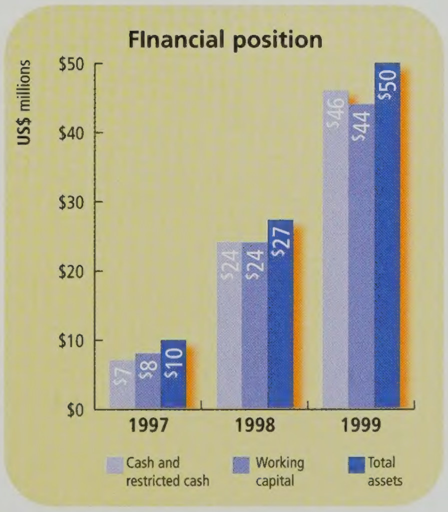
	1999	1998	1997
RESULTS OF OPERATIONS			
Revenue	$ 32,684	$ 22,921	$ 12,488
Net income from continuing operations [1]	20,012	14,290	8,930
Net income	20,561	16,713	6,116
Revenue growth %	43%	84%	8225%
Operating margin from continuing operations and before unusual items	61%	62%	72%
FINANCIAL POSITION			
Cash & restricted cash	$ 46,017	$ 23,790	$ 6,610
Working capital	44,245	24,282	7,668
Total assets	49,561	27,436	9,502
Shareholders' equity	45,840	25,012	7,921
PER FULLY DILUTED COMMON SHARE			
Cash & restricted cash	$ 2.95	$ 1.55	$ 0.44
Working capital	2.84	1.58	0.51
Total assets	3.18	1.78	0.63
Shareholders' equity	2.94	1.63	0.52
Earnings per share	1.35	1.10	0.43
VALUE MEASURES			
Return on equity	58%	101%	146%
P/E multiple	13	7	46
Market value to book value ratio	6	5	38
Number of shares outstanding	8,974	8,474	7,864
Fully diluted number of shares outstanding	15,605	15,384	15,123

COMMON SHARE PRICE	1999	1998	1997
High – Cdn$	$ 28.27	$ 28.00	$ 39.50
Low – Cdn$	11.70	4.00	2.85
Closing – Cdn$	25.90	12.30	28.50
Closing – US$	17.85	7.94	19.94

[1] For comparative purposes 1998 excludes the recovery of receivable.

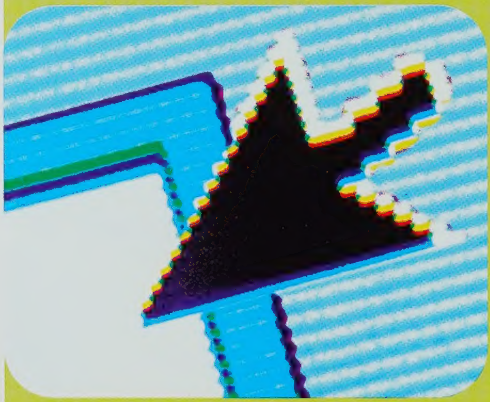






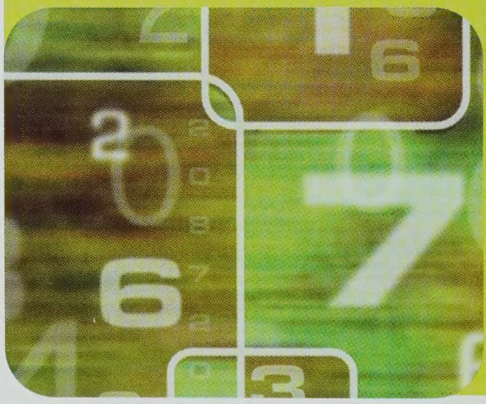
Winning formula

for profitable growth in new Internet economy



Leading Global Market Share

in revenue, earnings, processing volumes and user base



CRYPTOLOGIC INC. HAS PROVEN ITSELF as a stand-out software company in the explosive Web economy. Our industry-setting technologies for Internet gaming and e-commerce and financial performance make us one of a rare breed among Internet companies. We have developed a winning formula that has enabled us to achieve profitable growth, increase market share and deliver new innovations to advance our leadership position. We are pleased that 1999 saw CryptoLogic deliver more of the same growth performance.

Positive Financial Performance

In 1999, we achieved our financial targets for increased revenue and net income and further built on existing strong business fundamentals. Most notably, CryptoLogic continued to generate high profit margins and strong cash flow.

Total revenue for the 1999 year grew 43% to $32.7 million compared to $22.9 million in 1998 (all figures stated in US dollars). The increase in revenue was primarily attributable to heightened activities and the expanding user base of our existing gaming licensees. Due to our recurring revenue model, CryptoLogic derives ongoing license and support fees.

1999 MILESTONES

- 43% revenue growth
- 40% earnings growth from continuing operations
- Net margins from continuing operations exceeding 61%
- Capitalized with more than $46 million in cash
- Signed premier gaming brand, William Hill, as a licensee
- Over $1.6 billion in secure deposits processed
- User base increased 39% to 480,000 in 1999 from 345,000 in 1998
- Released new Spanish language version of e-gaming software
- Filed for Nasdaq listing

Net income rose 23% to $20.6 million or $2.40 per share ($1.35 per share on a fully diluted basis) versus $16.7 million or $1.99 ($1.10 per share on a fully diluted basis). Net income from continuing operations (excluding the recovery of receivable in 1998 for comparative purposes) rose 40% over 1998. Our net income margin from continuing operations exceeded 61% and we increased our cash position to more than $46 million. CryptoLogic remained well capitalized, generating over $21.5 million in cash flow in 1999. We expect to continue to maintain positive profit margins.

In December 1999, CryptoLogic realized a profit on the sale of Gamesmania, a leading electronic magazine and operator of one of the most popular video game sites on the Internet. Gamesmania was sold to Hip Interactive Corp. for Cdn$1.7 million in cash and shares along with 250,000 warrants. The sale to Hip Interactive enables us to recognize a gain on our investment, while continuing to participate in the fast-growing entertainment market through our equity position.

This past year, we also took the opportunity to file an application for listing on the Nasdaq National Market. As a major force helping to shape the emerging Internet gaming market, we believe a move to this technology-oriented exchange will give CryptoLogic heightened awareness, access to a capital market representative of our fast-paced growth and enhance shareholder value. Subsequent to year-end, CryptoLogic was approved for listing on Nasdaq and commenced trading on March 20, 2000 under the symbol CRYP. Our common shares continue to trade on The Toronto Stock Exchange under the symbol CRY.

Expanding International Market Presence

CryptoLogic's proven technology and well-regarded reputation have enabled us to foster long-standing relationships with our licensees and attract new top-tier gaming operators from around the world. We do not own or operate any Internet casino sites and focus only on providing state-of-the-art technology to gaming operators. In 1999, we increased our licensees from 11 to 15. By year-end, these 15 licensees have attracted over 480,000 registered users. Currently, our strategy has been to focus on quality – that is, building our business in partnership with prominent licensees, rather than focusing solely on increasing the number of licensees. Our revenue, earnings, processing volumes and user base are evidence of our leadership position as a software supplier to the Internet gaming industry.

In 1999, CryptoLogic's wholly-owned subsidiary, Intertainet Overseas Licensing Limited (IOLL), signed a licensing agreement with William Hill, one of the UK's largest and most respected gaming companies. William Hill represents the first major brand organization to enter Internet gaming and a notable milestone for the industry. The London-based company chose CryptoLogic's technology, experience and expertise to launch its new online casino, adding a new interactive channel to its world-renowned sports betting business. This relationship with William Hill is consistent with CryptoLogic's strategy. William Hill gives us a meaningful entry into the UK market with a 65-year-old brand name and access to a well-established user base. William Hill's virtual casino went live on January 12, 2000 and the early reception has been impressive. The number of users already far exceeds the historical growth trends from previous casino sites.

1999 also saw CryptoLogic begin certification of our software in Australia, one of the largest, regulated Internet gaming markets in the world. The certification is a rigorous process that takes approximately 8-12 months to complete and is expected to open the door to extend our growing international presence. Subsequent to the year-end, CryptoLogic signed an agreement with Jupiters Limited, one of Australia's largest land-based casino organizations.

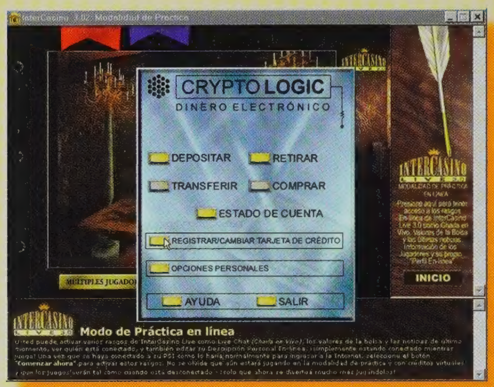
While the US legislative environment for Internet gaming remains unclear, this uncertainty is deterring US competitors and presents an opportunity for CryptoLogic to solidify our lead at the international level. Although the US still dominates the worldwide Internet usage, the rapid rise in the online population outside North America presents vast opportunities for those with the right technology and the right partners.

William Hill represents the first major brand organization to enter Internet gaming

Consistent with this international diversification strategy, CryptoLogic continues to pursue opportunities with major players in large world markets including Australia, Asia, Africa, South America and Europe. In 1999, we took strategic steps to advance our reach into these burgeoning regions and will continue to do so in the year 2000.

Innovation At Its Best

CryptoLogic continues to set the pace with new interactive and dynamic innovations in two of today's fastest growing markets – Internet gaming and e-commerce technologies. To maintain our status as a premier software provider in these industries, we devote substantial resources to research and development.



The Spanish version broadens our reach in international markets

In 1999, we invested in our next generation gaming and e-cash solutions. CryptoLogic enhanced the multi-lingual capabilities of our casino gaming software with a Spanish release. Based on version 3.0, the Spanish version offers customers translated help files, dealer voice-overs and table images. This new language application is in addition to the English and Japanese language versions and broadens our reach in international markets.

CryptoLogic continued to distinguish itself by raising the technology bar – investing the time and resources necessary to extend our technology lead in the e-gaming market. Planned for worldwide release in 2000, version 4.0 will offer enhanced flexibility, features and functionality that currently far surpass those of our closest competitors. Our licensees will gain the ability to easily and quickly add even more languages including Chinese, French, Italian, German and Portuguese. New features will include new games, tournaments, a VIP room for bigger stakes, progressive jackpots, easier step by step installation process and tutorials, dealer and player avatars, photo-realism and real audio streaming. These advancements in our Internet gaming technology will give players an exceptional entertainment experience and social interaction on the Web, the next best thing to a live casino.

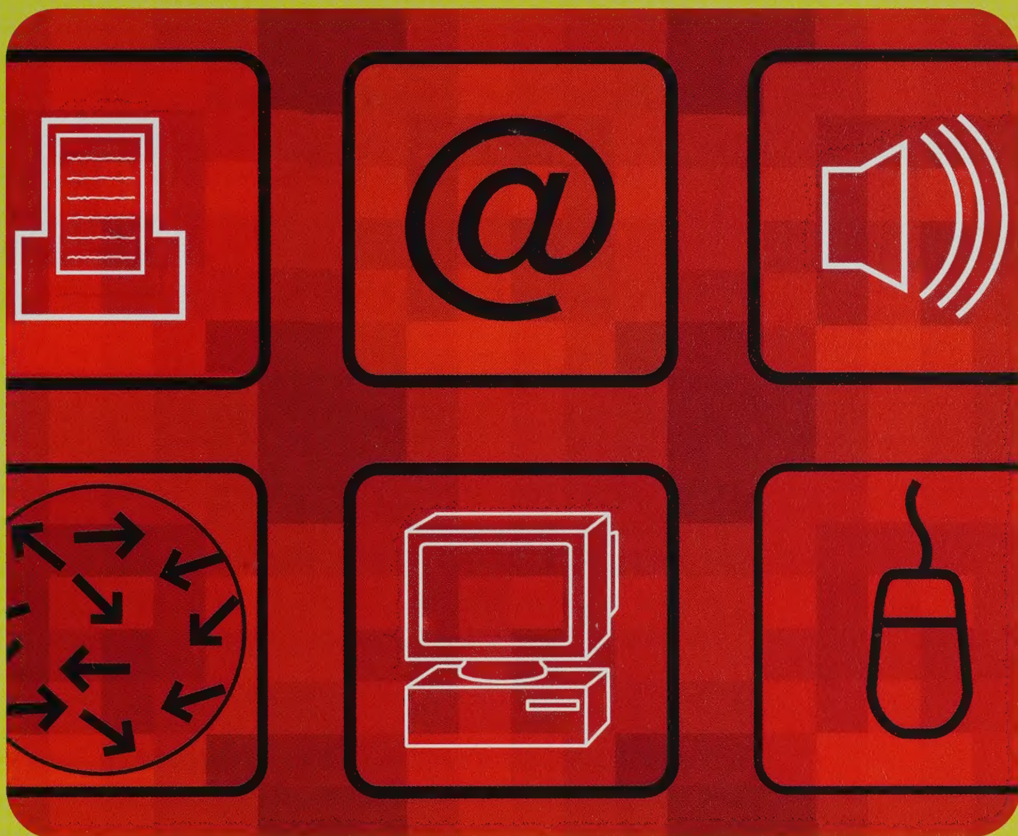
Version 4.0 includes new dealer and player avatars and views from players' perspective for a more realistic experience

On the e-commerce front, CryptoLogic offers an e-cash product that has demonstrated superior performance as an integrated component of our Internet gaming software. Our e-cash system has handled high volumes, experienced zero downtime and has encountered no system breach. Although transacting considerable volumes, our e-commerce system is only running at minimal capacity. CryptoLogic foresees a tremendous opportunity to mass market and expand the scope of our proven technology in other e-commerce areas. We are in a unique position to offer customers a new way to transact business on the Net and generate new revenue streams for merchants.

Without a doubt, our technological achievements have enabled CryptoLogic to capture a strong leadership position in the rapidly emerging Internet gaming and e-commerce markets. We are confident that CryptoLogic will continue to lead the pack with best-of-breed innovations.

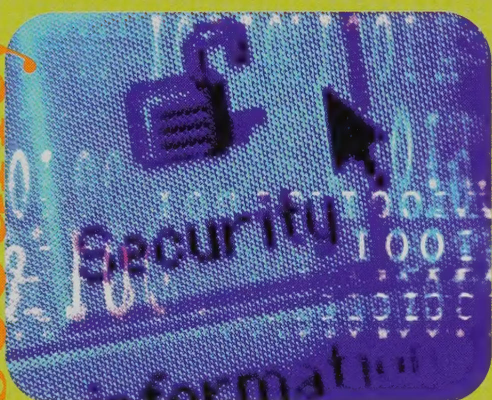
Industry-setting innovations

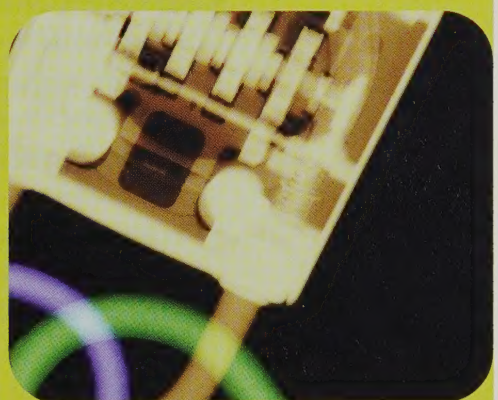
Pioneering R&D advancements that are shaping the new face of e-gaming



Proven security

Processed 340 million individual secure electronic transactions totaling more than US$3 billion





Looking Forward

We have positioned ourselves as a leader in two growth markets – Internet gaming and electronic commerce – while delivering impressive financial performance. Our success speaks to our vision, commitment, technological know-how and most important, our ability to execute our strategy. We have only just begun to realize on the potential of the Internet economy.

We have achieved our objectives by growing our business and leveraging our core competencies. Our year 2000 strategy includes:

- expanding into new and existing international markets;
- pursuing strategic relationships with well-recognized brand companies;
- developing new and enhanced software applications;
- commercializing new e-commerce technologies;
- seeking acquisition and consolidation opportunities; and
- extending our presence in the Internet entertainment market segment.

CryptoLogic will pursue an international diversification strategy, which includes additional multi-language product versions and partnerships in high-growth, regulated markets including Europe, Australia, South America and the Far East. Our software is already used in most countries around the world. We will continue to build on this expanding global presence and continue to seek opportunities with legally licensed land-based gaming organizations and brand name companies.

An important competitive advantage, particularly for Internet businesses, is a well-recognized brand. The Web has opened a world of goods and services to consumers at just a click of the mouse. A known brand name will offer access to a wider audience and draw greater traffic. CryptoLogic's demonstrated technology and established reputation now attract major brand names in land-based gaming, entertainment and media organizations. We expect that strategic relationships similar to William Hill and Jupiters will further cement our leadership position in the online gaming market.

Since inception, CryptoLogic has put to use our vast resources in our online gaming, electronic commerce and encryption solutions, which has enabled us to secure a substantial technological lead. Our Internet gaming software has revolutionized the face of online gaming, with the best-of-breed 3D panoramic navigation, full animation, digital sound and online interactivity between multiple players. Our e-cash application has demonstrated industry-leading security, speed and reliability. Building on these robust technologies, we will continue to use our resources in research and development to expand the scope of our product portfolio.

CryptoLogic has very quickly captured a healthy lead as a premier software provider in our e-gaming and electronic commerce markets. Our vision for the future remains focused on leveraging these core competencies in Web-enabled technologies and a financially strong business model to expand our global reach into ventures that will prove exciting and rewarding for all our stakeholders.

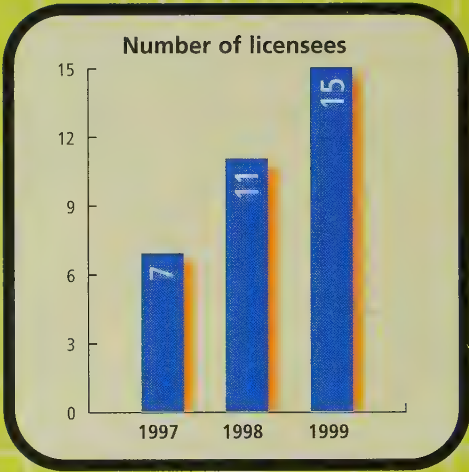
Our achievements are made possible due to the commitment and collaboration of the entire CryptoLogic team, our licensees and the support of our shareholders. We enter the new millennium with a focused growth strategy, a promising outlook and unprecedented opportunities to grow the business in our new wired world. We are confident that together, we will sustain our lead, optimize shareholder value and share in our mutual success.

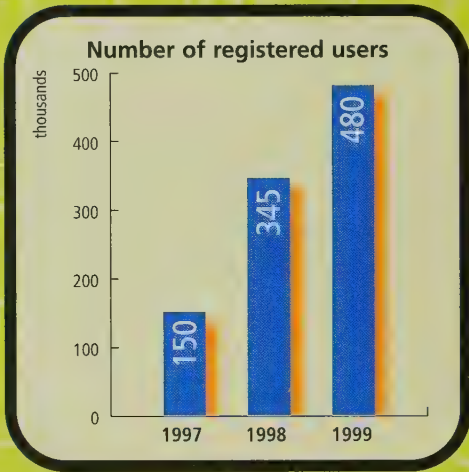
Mark Rl

Andrew Rivkin
President and CEO
February 22, 2000

Mark Rivkin
Executive Vice President and COO

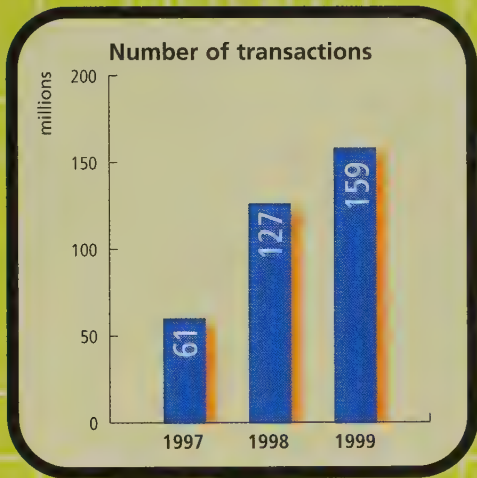
Key Performance

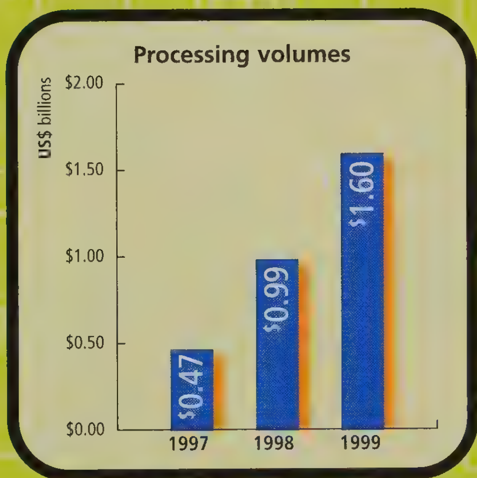




CryptoLogic 1999 Snapshot

- *No. of licensees: 15*
- *No. of Internet casino sites: 40+ brands operated by licensees*
- *User base: 480,000 registered users of the licensees*
- *No. of transactions: Over 340 million individual online transactions processed to date*
- *Processing volumes: Over US$3 billion in secure electronic transactions processed to date*


Number of transactions
millions
200
150
100
50
0
61
127
159
1997
1998
1999


Processing volumes
US$ billions
$2.00
$1.50
$1.00
$0.50
$0.00
$0.47
$0.99
$1.60
1997
1998
1999

Measures

Brand recognition

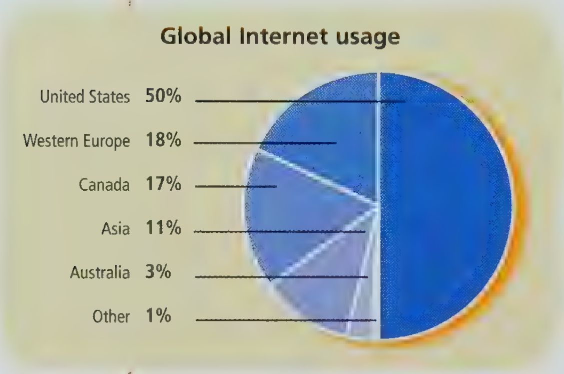
in partnership with prominent, world-renowned licensees

THE INTERNET IS FAST BECOMING THE PORTAL for a new way of life – how we shop, socialize, play and do business. A number of forces are driving the pervasive use of the Internet and giving rise to a new wired world. As more and more PCs find their way into our homes around the globe, Internet access will continue to grow dramatically. While the United States still accounts for the lion share of Internet usage today with 50% of total global Internet users, the worldwide spread of personal computers and the Internet are starting to take hold in other international markets such as Asia and European nations. Industry experts believe the greatest growth potential for Internet opportunities lies outside North America.

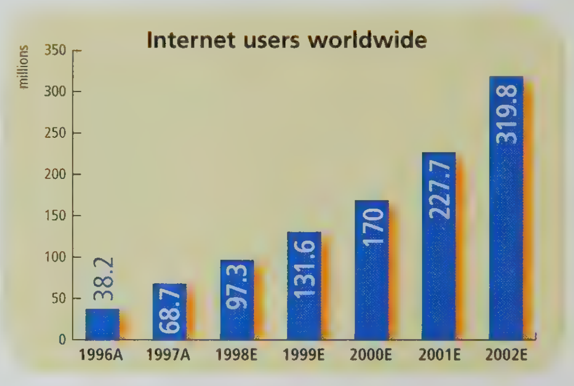
Constant advancements in technology are another contributing factor – leading to faster connection speeds, heightened interactivity and rich and dynamic content for an increasingly enticing Web experience. The emergence of alternate Internet access technologies such as WebTV, Palm Pilots, digital cell phones, two-way pagers and other wireless and wired devices are giving consumers easy access to the Web anywhere, anytime and will accelerate the rise in Internet usage. And as consumers gain confidence in the Internet as a secure and reliable medium, they will turn to the Web as a convenient way to access a world of goods and services at the touch of a button.

Consumers are spending a greater amount of time online. Jupiter Communications estimates that Internet users spent an average of nearly eight hours per week on the Internet in 1999 and that number is expected to increase to over ten hours by 2003. And consumers are using the Internet as a growing form of entertainment with "Web leisure" activities such as music, video and games gaining in popularity.

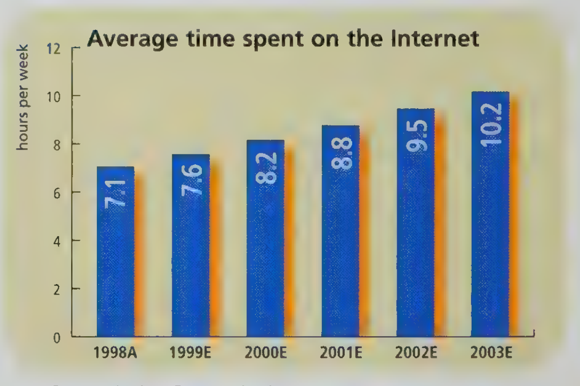
All these factors are creating a world of opportunities for CryptoLogic in our chosen high-growth markets of e-gaming and electronic cash. Our depth of Internet expertise and proven technical and financial performance should enable us to prosper in this new electronic economy.



Sources: IDC, eStats



Source: Jupiter Communications



Source: Jupiter Communications

The E-gaming Growth Market – A World of Opportunities

Market Size

Internet gaming is a very young and emerging industry with considerable room for growth. Industry experts have estimated that 1998 and 1999 total revenues or total wagers generated in the online gambling sector were US$651 million and US$1.2 billion respectively. Looking ahead, forecasted revenue growth is expected to exceed US$3 billion in 2002. Analysts further project that these estimates could easily double as major regulated markets like Australia open up to online gaming.

Source: Christiansen/Cummings

The Internet gaming market offers vast opportunities and is growing at a dramatic pace, but in its embryonic stage, the industry is fragmented and in a state of evolution. According to a January 2000 Bear Stearns' report, there are approximately 250 public and private companies that own, develop and operate more than 650 e-gaming Web properties worldwide, and new sites are added each day. Participants in this high-growth market include owner/operators, software providers, and hybrids of both.

Industry analysts believe that regulation of Internet gaming in major first-world markets like Australia could double revenue estimates.

ESTIMATED INTERNET GAMBLING MARKET	1998E	1999E	2000E	2001E	2002E
Adult Home Users (millions)	81	121	145	159	173
Users Conducting Web Transactions	18%	21%	24%	27%	30%
Transactors (millions)	14.57	25.33	34.74	42.99	51.97
Per Capita Annual Expenditure (US$)	$ 150.23	$ 154.88	$ 159.87	$ 165.28	$ 165.28
Potential Internet Gambling Revenue (US$millions)	$ 2,189.28	$ 3,923.36	$ 5,554.27	$ 7,105.84	$ 8,589.55
Est. Annual Internet Gambling Revenue (US$millions)	$ 651.20	$ 1,167.00	$ 1,485.70	$ 2,328.30	$ 3,067.00

Source: River City Group, LLC; Christiansen Capital Advisors, Inc.

CryptoLogic: A Market Leader

As a software provider, CryptoLogic believes the licensee group of our subsidiary, Intertainet Overseas Licensing Limited (IOLL), captures the largest portion of the Internet casino market. As a result of our early market entry, we boast the world's first and largest casino as one of our licensees. With the industry still in its infancy, it is difficult to compile accurate data on the many e-gaming participants. CryptoLogic does not have the greatest number of licensees, but we measure our success based on our significant revenue, the highest profitability level in the industry, our processing volumes and user base. Together, these factors confirm our position of industry leadership.

Specifically, our total 1999 revenues exceeded US$32.7 million with US$20.6 million in net income. Over the first few years of operation, we have processed more than 340 million individual online transactions and in excess of US$3 billion in secure electronic transactions. In 1999, we had 15 licensees that operate more than 40 branded online casinos, who in turn have a registered user base of over 480,000. CryptoLogic has developed a winning recurring revenue model that enables us to continue to maintain highly profitable growth.

Our Competitive Advantages:

Innovation Excellence

CryptoLogic established an early lead as a pre-eminent software provider for the fast growing Internet gaming market. Our advancements have set the pace and shaped the face of e-gaming for others to follow. We were the first to deploy client/server technology to develop our Internet gaming software, which is now the standard development platform for online casinos. CryptoLogic also led the industry with the release of a multi-player gaming environment enabling customers to enjoy their gaming experience with other players around the world as well as offering the most advanced 3D panoramic navigation and a rich graphical design.

Our technology lead remains unchallenged. We believe that no company has been able to capture the realistic gaming experience that we provided in our version 3.0 of our online casino software. The release of our next generation gaming technology is expected to further widen that gap. Our continued commitment to research and development will ensure that we deliver the best online gaming experience that the market has to offer.

Security and Trusted Reputation

While the Internet is becoming a widely accepted way to buy goods and services, many consumers remain wary of the safety of the information transmitted over the Web. CryptoLogic's e-cash product, an integral component of our online casino software package, employs the fastest and most secure encryption technologies available in the world today. Over US$3 billion in secure and uncompromised electronic transactions processed to date attest to the high security of our systems. The reliability and trustworthiness of our software solutions have enabled CryptoLogic to establish a highly credible reputation in the industry and will ensure our continued success.

Brand Appeal

Internet businesses, including e-gaming, are becoming highly competitive as more and more sites are launched every day. Brand recognition will be a key factor in gaining new customers to a site, and ultimately building a stronger and loyal user base. Established brand names also denote trust and familiarity for customers, giving users confidence that the services they are receiving are reliable and have a history of performance.

CryptoLogic is leveraging our excellent reputation and technology track record to attract brand name land-based casino organizations and other entertainment/ media companies. Our relationship with William Hill, one of the largest bookmaker operations in the UK and a globally-recognized brand, is a case in point – the result is a record breaking number of users to their virtual casino in its first months since launch.

As the Internet becomes a mainstream medium in markets around the world and an increasing amount of time is spent on 'Web leisure' activities, the e-gaming industry is poised for explosive growth. CryptoLogic's licensees are in an exceptional position to retain and grow their large share of the market. We have demonstrated our expertise through technological innovation, a reliable reputation and strategic relationships with brand name organizations. We have also distinguished ourselves from others through success in building our business with profitable results.

Our Gaming Software Solution –

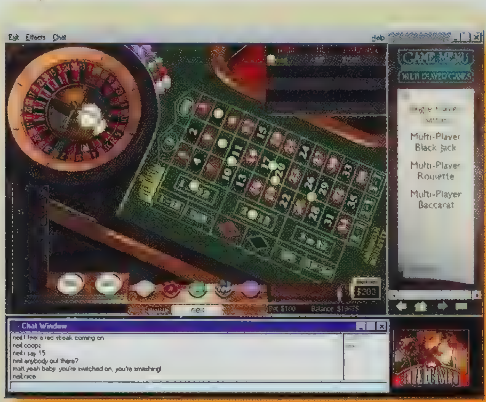
INTERTAINET
Overseas Licensing Limited

Our wholly-owned subsidiary, Intertainet Overseas Licensing Limited (IOLL), owns and licenses CryptoLogic's e-gaming software and support services to licensees around the world.

IOLL offers a total turnkey Internet gaming software package that delivers the ultimate gaming experience on the Internet and continues to set the industry standard. Our online gaming suite fulfills the absolute requirements of our licensees from front-end graphical user interface to back-end payment processing and reporting; thus providing a complete solution and eliminating the challenges of integrating multi-vendor systems. Within a matter of months, a licensee can launch their own branded virtual casino and begin accepting and processing wagers.

3D panoramic virtual casino floor

Multi-browser functionality with live stock quotes



Roulette game with chatting capabilities

Variety of online slot machines

Market Differentiating Functions and Features

ULTIMATE WEB EXPERIENCE: Version 3.0 of our Internet gaming software was the first to deliver a 3D panoramic virtual casino floor, fully animated multi-player games, multi-browser functionality for live information feeds from the Web and chatting capabilities. Today, players can choose from more than 25 casino games. Our gaming software enables consumers to walk around the casino, socialize and play in real-time with other players in different parts of the world, for an exciting and realistic virtual casino experience.

EASE-OF-USE: Our unique hybrid client server/browser platform enables players to download and install our gaming software quickly and easily. Players can start playing their favourite casino game within a matter of minutes. The graphics, sound and animation reside on the player's computer once installed, so that users can enjoy real-time play without experiencing long waits as new hands are dealt. 'Return to state' functionality enables users to resume where they left off if a download is disconnected or a play is interrupted.

INTEGRATED E-CASH SECURITY AND PERFORMANCE: Developed with the most sophisticated encryption technologies, our e-cash product is an integral component of our Internet gaming system, enabling fast and secure financial transactions. Unique security keys between users and servers are updated in each session for heightened security. Our e-commerce engine has securely processed billions of dollars in transactions, attesting to its reliability and high performance. Players can deposit funds into an e-cash account on the casino Web site (by way of credit card, check, from their bank account or other payment methods) and very quickly begin playing with real money, confident in the safety of their information transmitted and accuracy of account records.

Our licensees also enjoy the peace of mind that their online casino site is operating in real-time, all the time. Redundant servers provide a backup measure to ensure there is never any interruption of service.

Introduction

The following discussion and analysis is a review of the activities, results of operations and financial condition of CryptoLogic Inc. ("CryptoLogic" or "the Company") for the fiscal year ended December 31, 1999 as compared to the fiscal year ended December 31, 1998. The discussion and analysis should be read in conjunction with the consolidated financial statements of the Company for the years ended December 31, 1999 and December 31, 1998 and the notes thereto.

The Company adopted the U.S. dollars as its reporting currency effective January 1, 1998, as substantially all the Company's revenues are derived internationally and are transacted in U.S dollars. All dollar amounts in the following discussion are in U.S. dollars unless otherwise indicated.

Overview

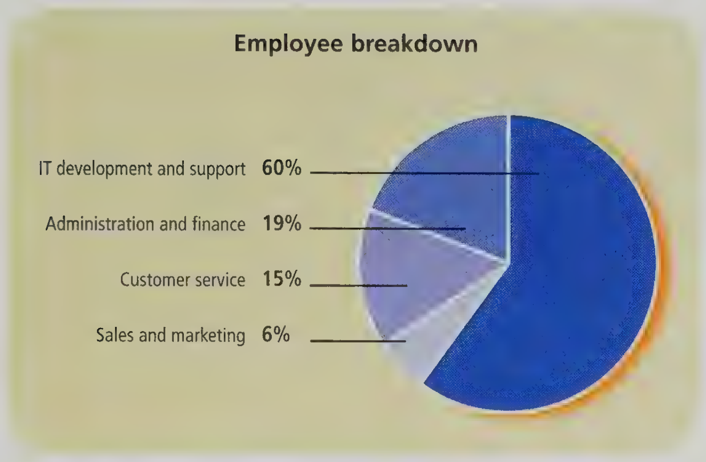
The Company is an Internet software development and licensing company with leading proprietary commerce enabling technology, permitting secure, reliable, efficient and rapid financial transactions over the Internet and has focused its activities on developing proprietary software technology for the Internet gaming industry. The Company has licensed its software products to companies internationally who hold Internet gaming licenses issued by governments where those companies are domiciled.

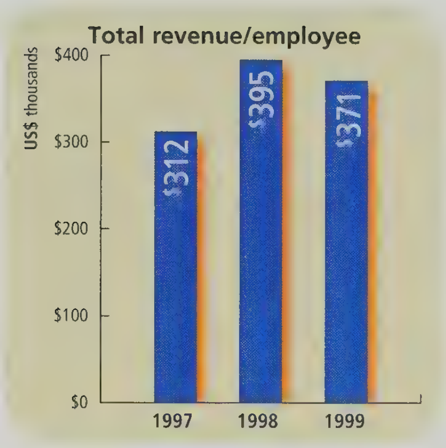
In 1999, the Company continued to focus on growth through enhancements of its software and expanding its licensee base. Total consolidated revenue increased 43% from $22.9 million in 1998 to $32.7 million in 1999, primarily due to an increase in licensing and support fees earned from existing licensees. As at December 31, 1999, the Company had fifteen licensing agreements. During 1999, the Company entered into four new licensing agreements.

On December 9, 1999, the Company sold all the shares of Gamesmania Inc. (a wholly-owned subsidiary) to HIP Interactive Corp. for total consideration of $1,155,000 (Cdn$1,703,000) consisting of cash of $475,000 (Cdn$700,000), 1,000,000 common shares of HIP and 250,000 warrants of HIP. The shares of HIP are publicly listed and at December 31, 1999 the quoted market value of the shares were $2.05 CDN per share.

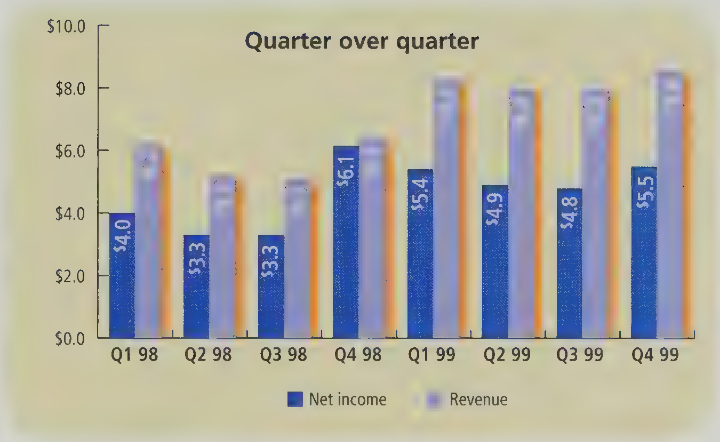
In 1999, the Company added 30 new employees, which increased the staff from 58 individuals as of December 31, 1998 to 88 as of December 31, 1999. In 1998, the Company hired 18 employees. Of the Company's 1999 employee base, 60% are compromised of development and support staff.

Total revenue per employee was $371,000 in 1999 compared to $395,000 in 1998.





Results of Operations



REVENUES

Total consolidated revenue for 1999 was $32.7 million, up 43% from $22.9 million in 1998, due to an increase in licensing and support fees received from existing licensees. The Company derives its revenue from recurring revenue from ongoing licensing and support fees and one-time customization fees. Substantially all of the Company's revenue is earned from the licensing and support of its gaming software. In 1999, licensing and support fees revenue was $31.0 million, representing more than 95% of total revenue, compared to $21.3 million in 1998 or 93% of total revenue.

NET INCOME

Net income from continuing operations was $20.0 million in 1999, a 20% increase over 1998's net income from continuing operations of $16.7 million and a 40% increase over 1998's net income (excluding the recovery of receivable) of $14.3 million.

Earnings per share were $2.40 in 1999 compared to $1.99 in 1998. Earnings per share from continuing operations were $2.34 in 1999 compared to $1.99 in 1998. Earnings per share have been calculated using the weighted average number of shares outstanding during the year.

Fully diluted earnings per share for 1999 were $1.35 compared to $1.10 in 1998. Fully diluted earnings per share from continuing operations for 1999 were $1.31 compared to $1.10 in 1998. Fully diluted earnings per share from continuing operations in 1999 were $1.31 compared to fully diluted earnings per share from continuing operations before recovery of receivable were $0.94 in 1998.

EXPENSES

The rise in expenses was consistent with the Company's increased development and sales activities as well as growing employee base to support and drive the expansion of its business.

The costs directly associated with the development and support of the software totaled $9.2 million in 1999 and $6.5 million in 1998. However as a percentage of total revenue, these expenses remained at 28% for both years.

General and administrative expenses were $1.5 million in 1999 compared to $1.2 million in 1998, which decreased as a percentage of total revenue to 4% in 1999 over 5% in 1998.

INCOME TAXES

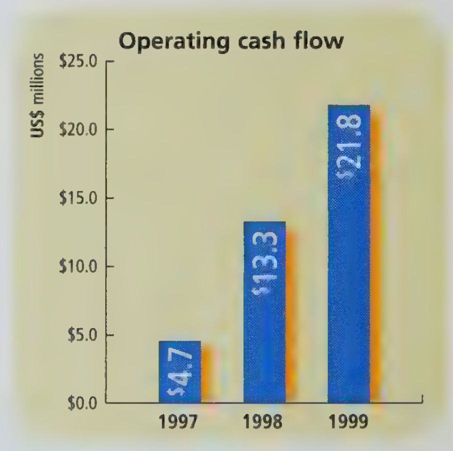
Income taxes for the year ended December 31, 1999 were $1.7 million, representing an effective tax rate of 7.9%. The effective tax rate differs from the Canadian statutory rates due to lower tax rates of foreign subsidiaries. The effective tax rate for 1998 was 4.8%. The tax rate increase in 1999 was due to the varied distribution of income in the geographic areas that the Company operates.

Discontinued Operations and Unusual Item

The gain on discontinued operations of $549,000 consists of the gain on the disposal of Gamesmania Inc. of $991,000 (less $275,000 income tax expense) offset by the loss from discontinued operations for 1999 of $167,000. There were no effects on 1998 as Gamesmania Inc. commenced operations January 5, 1999.

On December 31, 1997, in accordance with generally accepted accounting principles, the Company took a one-time write-down against a receivable from a credit card processor of $2.4 million. The credit card processor had experienced financial difficulty which left it unable to meet its obligations to the Company, therefore, reducing the Company's 1997 net income from $8.5 million to $6.1 million for the year. During 1998, the Company recovered the full amount of the receivable written-down in 1997.

Liquidity and Capital Resources



CryptoLogic generated $21.8 million in cash flow from continuing operations in 1999, an increase of $8.5 million from its 1998 cash flow from continuing operations of $13.3 million. The Company generated $267,000 in cash flow from financing activities through the issuance and repurchase of capital stock in 1999 compared to $378,000 in 1998. During 1999, the Company repurchased and cancelled 48,000 common shares for a total cash outflow of $572,000 under the normal course issuer bid approved by the Board of Directors in May 1999. During 1998, the Company redeemed all 1,033,855 outstanding preferred shares for Cdn$0.10 per share, which resulted in a cash outflow from financing activities of $75,000. CryptoLogic had capital asset expenditures of $342,000 in 1999 and $159,000 in 1998.

CryptoLogic's cash policy is to maintain sufficient funds in reserve to pay electronic commerce customers balances and to pay vendors on a current basis. At December 31, 1999, CryptoLogic had sufficient cash and cash equivalent balances to cover all such liabilities. Cash and cash equivalents at December 31, 1999 were $41.0 million, an increase of $21.6 million from the amount of $19.4 million as at December 31 1998. Net current assets were $44.2 million at December 31, 1999 compared to $24.3 million at December 31, 1998. CryptoLogic has no loans outstanding. CryptoLogic is required by its credit card processors to maintain a percentage of credit card processing levels as reserves with its processors. At December 31, 1999, reserves and deposits with credit card processors totaled $631,000 down from $2.0 million at December 31, 1998. The decrease is a direct result to reduce the reserves held by credit card processors. CryptoLogic has obtained letters of credit in favour of the processors as an alternative to maintaining required reserves. At December 31, 1999, the amount of letters of credit outstanding was $5.0 million compared to $4.4 million as at December 31, 1998. The funds held by CryptoLogic's bank as security for these letters of credit are classified as restricted cash on the balance sheet.

Amounts held with CryptoLogic from electronic commerce customers are disclosed as a liability on the balance sheets entitled "Funds held on deposit". At December 31, 1999, the amount of funds held on deposit equaled $1.1 million up from $768,000 at the end of 1998.

At December 31, 1999, CryptoLogic had in excess of $46 million in cash and restricted cash. The Company intends to use the excess cash for corporate development and acquisitions. Generally, for potential investments to be considered under the Company's acquisition objectives, the target investment must already be generating revenue, have existing management that is expected to continue, and have synergies with CryptoLogic's existing operations, that is, be related to the Internet and software industries.

The Company has arranged a stand-by credit facility with its bankers for Cdn$3.5 million for operating purposes. To date the Company has not utilized this facility.

Risks and Uncertainties

The Company operates in a rapidly changing environment that involves numerous risks, many of which are beyond the Company's control and which could have a material adverse effect on the Company's business, revenues, operating results and financial condition. The following discussion highlights some of these risks. In addition, readers should carefully review the risk factors described in the Annual Information Form the Company files with various Securities Commissions.

GOVERNMENT REGULATION

The Company and its licensees are subject to applicable laws in the jurisdictions in which they operate. While some jurisdictions have introduced regulations to attempt to restrict or prohibit Internet gambling, other jurisdictions, such as several Caribbean countries and Australia, have taken the position Internet gaming is legal and/or have adopted or are in the process of reviewing legislation to regulate Internet gaming in such jurisdictions. As companies and consumers involved in Internet gaming are located around the globe, including the end-users of the Company's licensees, there is uncertainty regarding exactly which government has jurisdiction or authority to regulate or legislate with respect to various aspects of the industry. Furthermore, it may be difficult to identify or differentiate gaming-related transactions from other Internet activities and link these transmissions to specific users, in turn making enforcement of legislation aimed at restricting Internet gaming activities difficult. However, legislation designed to restrict or prohibit Internet gaming may be adopted in the future in the United States or other jurisdictions.

After previous similar proposals failed to pass in 1998, on March 23, 1999, Senator Jon Kyl of the Untied States senate introduced a revised proposal intended to prohibit Internet gambling. As of March 2000, the full Senate has approved the bill. The bill is currently being reviewed by the Judiciary Committee before it can reach the House of Representative for a vote. There can be no assurance whether any such bill will become law. As well, existing legislation, including United States and federal statutes, could be construed to prohibit or restrict gaming through the use of the Internet and there is a risk that governmental authorities may view the Company's licensees or the Company as having violated such statutes. There is a risk that criminal and civil proceedings could be initiated in such jurisdictions against the Company's licensees or the Company and such proceedings could involve substantial litigation expense, penalties, fines, diversion of the attention of key executives, injunctions or other prohibitions being invoked against the Company's licensees or the Company. Such proceedings could have a material adverse effect on the Company's business, revenues, operating results and financial condition.

In addition, as electronic commerce further develops, it may generally be the subject of government regulation. As well, current laws, which predate or are incompatible with Internet commerce, may be enforced in a manner that restricts the electronic commerce market. Any such developments could have a material adverse effect on the Company's business, revenues, operating results and financial condition.

INTERNET GAMING SOFTWARE

Substantially all of the Company's revenues to date have been derived from the licensing of its Internet gaming software and revenue derived from its associated services. The Company's continued success will depend in large part upon the success of its Internet gaming software.

ELECTRONIC COMMERCE

The use of the Internet for commercial transactions is growing and the success of the Company's electronic commerce services will depend in large part on the widespread adoption of the Internet for commercial transactions. As the marketplace for electronic commerce is in the development stage, it is subject to frequent and rapid technological changes.

COMPETITION

Gaming services over the Internet is a relatively new industry and licensees of the Company's software will compete with existing and more established recreational services and products, in addition to certain other forms of entertainment. The Company's success will depend, among other things, upon its ability to enhance its products and services that keep pace with technological developments, respond to evolving customer requirements and achieve continued market acceptance. The Company competes with several public and private companies that provide electronic commerce and/or Internet gaming software. Any failure by the Company to anticipate or respond adequately to technological developments and customer requirements or any significant delays in product development or introductions could result in a loss of market share or revenues.

There can be no assurance that other companies with greater financial and technological resources will not develop electronic commerce software or gaming software for the Internet with better capabilities than the Company's products or that the Company will be able to compete successfully against existing competitors or future entrants into the market. In addition to those known competitors of the Company, it is most likely that several new competitors may be established in the near future, in particular in the electronic commerce software market as the market for electronic commerce develops.

DEPENDENCE ON KEY LICENSEES

A substantial portion of the Company's revenue is derived from certain key licensees. As part of the licensing agreement with its main licensee, the Company has the right to assign the licensee's "brand name" to another licensee if the existing agreement is cancelled or not renewed. The loss of one or more of the Company's key licensees could have a material adverse effect on the Company's business, revenues, operating results and financial condition.

RISKS ASSOCIATED WITH FOREIGN OPERATIONS

It is anticipated that practically all of the Company's revenue will be derived from licensing and support fees in foreign countries. The Company and its licensees are subject to local laws and regulations in those jurisdictions in which they operate. While some jurisdictions have introduced regulations designed to restrict Internet gaming, other jurisdictions have demonstrated acceptance of such activities.

In addition to uncertainty regarding the local legal status of Internet gaming in other jurisdictions, there are certain difficulties and risk inherent in doing business internationally. Changes in the political, regulatory and taxation structure of jurisdictions in which the Company or its Subsidiaries operate and in which the licensees' customers are located could have a material adverse effect on the Company's business, revenues, operating results and financial condition.

RELIANCE ON OTHER PARTIES

The Company's electronic commerce product for handling transactions over the Internet relies on Internet Service Providers (ISP) to have its licensee's customers and servers communicate with each other. If all of the ISP experienced lengthy service interruptions, it would prevent communication over the Internet and would greatly impair the ability of the Company to carry on business.

The Company's ability to process electronic commerce transactions depends on bank processing and credit card systems. In order to prepare for certain types of system problems, the Company has developed and tested a formal disaster recovery plan. Any system failure, including network, software or hardware failure, that causes a delay or interruption in the Company's electronic commerce services could have a material adverse effect on the Company's business, revenues, operating results and financial condition.

INTELLECTUAL PROPERTY

The Company relies on a combination of copyright and trade secret laws and contractual provisions to establish and protect its rights in its software and proprietary technology.

The Company's competitive position may be affected by its ability to protect its proprietary information. However, because the software industry is characterized by rapid technological change, the Company believes that patent, trademark, copyright and other legal protections are less significant to the Company's success than other factors such as the knowledge, ability and experience of the Company's personnel, new product and service developments, frequent product enhancements, customer service and ongoing product support.

There can be no assurance that the steps taken by the Company to protect its proprietary rights will be adequate to deter misappropriation of its technology or independent development by others of technologies that are substantially equivalent or superior to the Company's technology. Any infringement claim or litigation against the Company could have a material adverse effect on the Company's business, revenues, operating results and financial condition.

HIRING AND RETENTION OF EMPLOYEES

The Company's future success is dependent on certain key management and technical personnel. The loss of key personnel or the inability to attract and retain highly qualified personnel, consultants or advisors could have a material adverse effect on the Company's business, revenues, operating results and financial condition.

FUTURE ACQUISITIONS

As part of the Company's business strategy, the Company may make acquisitions of, or significant investments in, businesses that offer complementary products, services, and technologies. Any acquisitions or investments will be accompanied by the risks commonly encountered in acquisitions of business. Such risks include, among other things, the difficulty of assimilating the operations and personnel of the acquired business, the potential disruption of management from the Company's business, the inability of management to maximize the financial and strategic position of the Company and acquired businesses, the maintenance of uniform standards, controls, procedures and policies and the impairment of relationships with employees and clients as a result of and integration of new management personnel.

Outlook

Management will continue to focus on the Company's objective to leverage its technological expertise and proven business model to grow its business for long term revenue and earnings growth, while continually enhancing shareholder value. The Company intends to continue to broaden the features and functionality of its gaming software to support the growth of its licensees and establish relationships with well-recognized brand name organizations around the world.

The release of its version 4.0 Internet gaming software in year 2000 is expected to enable the Company to advance its market leadership. Certification of its gaming software in Australia and additional licensing agreements with major land-based gaming operators like William Hill and Jupiters Limited is expected to further increase the Company's global presence.

The Company is expanding the concept and functionality of its electronic commerce technology. Leveraging its proven financial transaction and encryption expertise, the Company plans to capitalize on a new niche market for a mainstream application of its new e-cash solution, which includes small everyday financial transactions on Internet-enabled wired and wireless devices.

The Company believes it is entering the 21st century ideally positioned to realize its growth potential in two of the world's fastest growth sectors – Internet gaming and electronic commerce.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of CryptoLogic Inc. and all of the information in this Annual Report are the responsibility of Management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by Management in accordance with generally accepted accounting principles. These statements include some amounts that are based on best estimates and judgement. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Financial information used elsewhere in the Annual Report is consistent with that in the financial statements.

CryptoLogic's policy is to maintain systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, accurate and reliable and that the Corporation's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and is ultimately responsible for approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board and is comprised of a majority of outside Directors. The committee meets periodically with Management and the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues to satisfy itself that each party is properly discharging its responsibilities. The Audit Committee reviews the Corporation's annual consolidated financial statements, the external auditors' report and other information in the Annual Report. The committee reports its findings to the Board for consideration by the Board when it approves the financial statements for issuance to the shareholders.

On behalf of the shareholders, the financial statements have been audited by KPMG LLP, the external auditors, in accordance with generally accepted auditing standards. KPMG LLP has full and free access to the Audit Committee.

Harvey H. Solursh

Andrew Rivkin
President and CEO

Harvey Solursh
Chief Financial Officer

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of CryptoLogic Inc. as at December 31, 1999 and 1998 and the consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Canadian generally accepted accounting principles differ in some respects from those applicable in the United States (note 17).

KPMG LLP

Chartered Accountants

Toronto, Canada
February 4, 2000

CRYPTOLOGIC INC.

CONSOLIDATED BALANCE SHEETS

(In thousands of U.S. dollars)

December 31, 1999 and 1998

	1999	1998
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 40,977**	$ 19,400
Restricted cash (note 2)	**5,040**	4,390
Reserves and deposits with credit card processors (note 3)	**631**	2,002
Accounts receivable	**298**	373
Prepaid expenses and other	**1,020**	541
	47,966	26,706
Investments (note 4)	**1,080**	400
Capital assets (note 5)	**515**	330
	$ 49,561	$ 27,436
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	**$ 1,563**	$ 1,257
Accrued liabilities	**289**	318
Income taxes payable	**777**	81
Funds held on deposit	**1,092**	768
	3,721	2,424
Shareholders' equity:		
Capital stock (note 7)	**3,665**	2,842
Retained earnings	**42,175**	22,170
	45,840	25,012
Commitments (note 9)		
	$ 49,561	$ 27,436

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Director

Director

CRYPTOLOGIC INC.

CONSOLIDATED STATEMENTS OF INCOME

(In thousands of U.S. dollars, except per share disclosure)

Years ended December 31, 1999 and 1998

	1999	1998
Revenue	$ 30,980	$ 22,132
Interest income	1,704	789
	32,684	22,921
Expenses:		
Software development and support	9,239	6,467
General and administrative	1,468	1,190
Finance	99	46
Amortization	157	82
	10,963	7,785
Income before undernoted	21,721	15,136
Recovery of receivable (note 11)	–	(2,423)
Income before income taxes and discontinued operations (note 17(b))	21,721	17,559
Income taxes (note 12)	1,709	846
Income from continuing operations	20,012	16,713
Gain on discontinued operations (note 13)	549	–
Net income	$ 20,561	$ 16,713
Income per common share (note 10):		
Basic:		
Income per common share from continuing operations	$ 2.34	$ 1.99
Income per common share	2.40	1.99
Fully diluted:		
Income per common share from continuing operations	1.31	1.10
Income per common share	1.35	1.10

See accompanying notes to consolidated financial statements.

CRYPTOLOGIC INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands of U.S. dollars)

Years ended December 31, 1999 and 1998

	1999		1998	
	Number of shares	**Stated value**	Number of shares	Stated value
	(000's)		(000's)	
Common shares:				
Balance, beginning of year	**8,474**	**$ 2,820**	7,864	$ 2,355
Issue of common shares under:				
Repurchase of shares (note 7(b))	**(48)**	**(16)**	–	–
Compensation warrants	**–**	**–**	400	139
Stock options	**148**	**704**	48	144
Class A purchase warrant	**400**	**135**	–	–
Series B warrants	**–**	**–**	97	177
Preference shares converted	**–**	**–**	65	5
	8,974	**3,643**	8,474	2,820
Preference shares:				
Balance, beginning of year	**–**	**–**	1,100	80
Converted to common shares	**–**	**–**	(66)	(5)
Redeemed	**–**	**–**	(1,034)	(75)
	–	**–**	–	–
Series B warrants:				
Balance, beginning of year	**–**	**–**	97	7
Converted to common shares	**–**	**–**	(97)	(7)
	–	**–**	–	–
Series C warrants:				
Balance, beginning and end of year	**160**	**22**	160	22
Total capital stock		**3,665**		2,842
Retained earnings, beginning of year		**22,170**		5,457
Net income		**20,561**		16,713
Excess of repurchase price of common shares over stated value (note 7(b))		**(556)**		–
		42,175		22,170
Total shareholders' equity		**$ 45,840**		$ 25,012

See accompanying notes to consolidated financial statements.

CRYPTOLOGIC INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of U.S. dollars)

Years ended December 31, 1999 and 1998

	1999	1998
Cash flows from operating activities:		
Income from continuing operations	**$ 20,012**	$ 16,713
Amortization adjustment to reconcile income to net cash flows	**157**	82
Change in operating assets and liabilities:		
Restricted cash	**(650)**	(4,090)
Reserves and deposits with credit card processors	**1,371**	150
Accounts receivable	**75**	4
Prepaid expenses and other	**(479)**	(431)
Accounts payable	**306**	946
Accrued liabilities	**(29)**	(36)
Income taxes payable	**696**	(142)
Deposit from licensee	**–**	(125)
Funds held on deposit	**324**	200
	21,783	13,271
Cash flows used in discontinued operations	**(336)**	–
	21,447	13,271
Cash flows from financing activities:		
Issue of capital stock	**839**	453
Repurchase of common shares	**(572)**	(75)
	267	378
Cash flows from investing activities:		
Investment	**–**	(400)
Proceeds on sale of Gamesmania	**475**	–
Additions to capital assets	**(342)**	(159)
Acquisition of assets of Gamesmania	**(270)**	–
	(137)	(559)
Increase in cash and cash equivalents	**21,577**	13,090
Cash and cash equivalents, beginning of year	**19,400**	6,310
Cash and cash equivalents, end of year	**$ 40,977**	$ 19,400
Supplemental disclosure of cash flow information:		
Income taxes paid	**$ 1,013**	$ 988
Interest received	**1,343**	608
Non-cash acquisition of investment	**680**	–

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tables in thousands of U.S. dollars, except per share disclosure and where indicated otherwise)

Years ended December 31, 1999 and 1998

CryptoLogic Inc. (the "Company") is a software development company with leading proprietary commerce enabling technology, permitting secure, reliable, high speed, private financial transactions over the Internet. The Company's software is currently being used for electronic commerce and on-line gaming. All of the Company's revenues are earned in U.S. dollars from licensing fees and support services from licensees located outside of North America. The Company reports its results in U.S. dollars.

1. Significant accounting policies:

The consolidated financial statements are prepared in accordance with generally accepted accounting principles. A summary of significant accounting policies is set out below:

(a) *Basis of presentation:*

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

(b) *Revenue recognition:*

Revenue from providing software and support services to licensees is recognized on a daily basis based on the agreements with the licensees. Revenue from the customization of the software graphics, sound and texts to the specifications of the licensees is recognized when the software application is available for use on the Internet.

(c) *Cash and cash equivalents:*

Cash and cash equivalents include highly liquid investments with short-term maturity dates and are stated at cost, which approximates market value.

(d) *Investments:*

Investments are stated at cost less provisions for any permanent impairment in value.

(e) *Capital assets:*

Capital assets are stated at cost less accumulated amortization. Amortization, based on the estimated useful lives of the assets, is provided using the following methods and annual rates:

Asset	Basis	Rate
Computer equipment	Diminishing balance	30%
Office furniture and equipment	Diminishing balance	20%
Computer software	Straight line	100%
Leasehold improvements	Straight line	3 years

(f) *Research and development:*

Research costs are expensed as incurred. Costs related to the development of software are expensed as incurred unless such costs meet the criteria for deferral and amortization under generally accepted accounting principles. To December 31, 1999, the Company has not deferred any software development costs.

(g) *Income taxes:*

During the year ended December 31, 1999, the Company adopted the new accounting requirements of The Canadian Institute of Chartered Accountants ("CICA") for income taxes. There has been no effect on income as a result of adopting these new requirements. Under these new requirements, the Company uses the asset and liability method of accounting for income taxes. Future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carryforwards. Future tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(Tables in thousands of U.S. dollars, except per share disclosure and where indicated otherwise)

1. **Significant accounting policies** (continued):

(h) *Stock-based compensation:*

The Company has a stock option plan for directors, officers, other key employees and consultants which is described in note 8. The Company follows the intrinsic value method of accounting for stock options. Under this method, compensation expense is recognized over the vesting period of stock options that are granted with an exercise price below the fair market value of the underlying common shares at the date of grant. There were no options granted with an exercise price below the fair market value of the common shares during 1999 and 1998. As a result, there was no compensation expense recorded by the Company during 1999 and 1998. Consideration received by the Company on the exercise of stock options is recorded as share capital.

(i) *Use of estimates:*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual amounts could differ from those estimates.

(j) *Foreign currency:*

Monetary items denominated in other than U.S. dollars are translated into U.S. dollars at exchange rates in effect at the balance sheet date and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenue and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in net income.

(k) *Statement of cash flows:*

During the year ended December 31, 1999, the Company adopted the new accounting requirements of The Canadian Institute of Chartered Accountants ("CICA") for Cash Flow Statements. Under these new requirements, the Consolidated Statement of Cash Flows provides information with respect to changes in cash and cash equivalents and classifies cash flows during the period arising from operating, financing and investing activities. Previously, the Company presented a Consolidated Statement of Changes in Financial Position, which provided information classified in a similar manner to the new Consolidated Statement of Cash Flows, except that non-cash transactions were included in the Statement of Changes in Financial Position. The prior year results have been restated to conform with the presentation adopted in the current year.

2. **Restricted cash:**

These amounts are held by the Company's bank as security for letters of credit of equivalent amounts granted to foreign banks that are responsible for processing credit card transactions.

3. **Reserves and deposits with credit card processors:**

The terms of the agreements with some of the credit card processors require the Company to maintain U.S. dollar-denominated funds for reserves and deposits in non-interest bearing accounts with those processors.

4. **Investments:**

	1999	1998
Investment in Creditcards.com (formerly Electronic Card Systems Inc.)	$ 400	$ 400
Investment in HIP Interactive Corp.	680	–
	$ 1,080	$ 400

Creditcards.com (formerly Electronic Card Systems Inc.) is in the business of credit card transaction processing, primarily focused on Internet-based merchants.

(Tables in thousands of U.S. dollars, except per share disclosure and where indicated otherwise)

4. Investments (continued):

The investment in HIP Interactive Corp. ("HIP") arose on the sale of Gamesmania Inc. ("Gamesmania") on December 9, 1999 (note 13). The investment in HIP is comprised of 1,000,000 common shares and 250,000 warrants. Under the terms of the agreement, 998,000 common shares are held by the Company and will be released from escrow as follows: 149,700 common shares on March 10, 2001; 282,733 common shares on March 10, 2002; 282,733 common shares on March 10, 2003; and 282,834 common shares on March 10, 2004. Each warrant entitles the Company to purchase 1 common share of HIP for Cdn. $1.00 and expires on December 9, 2002. HIP primarily is in the E-commerce business selling video games and consumer PC software.

5. Capital assets:

1999	Cost	Accumulated amortization	Net book value
Computer equipment	$ 590	$ 200	$ 390
Office furniture and equipment	94	23	71
Computer software	387	387	–
Leasehold improvements	83	29	54
	$ 1,154	$ 639	$ 515

1998	Cost	Accumulated amortization	Net book value
Computer equipment	$ 376	$ 115	$ 261
Office furniture and equipment	40	9	31
Computer software	350	350	–
Leasehold improvements	46	8	38
	$ 812	$ 482	$ 330

6. Bank credit facility:

The Company has a Cdn. $3,500,000 credit facility with a major Canadian chartered bank for operating purposes. The facility may be drawn in either Canadian or U.S. dollars. The facility is repayable from revenue. The interest rate on the credit facility is at the bank's prime rate, based on either Canadian or U.S. prime rates, as applicable. Any borrowings under this facility must be supported by a pledge of cash equivalent. The bank may at any time terminate the credit facility and demand payment of any amount outstanding. The Company has never utilized this facility.

The Company arranged a foreign exchange forward contract facility with a major Canadian chartered bank allowing contracts to a maximum of $9,200,000. The facility requires that 10% of the contract placed must be supported by a pledge of cash equivalent. As at December 31, 1999, there were no contracts outstanding relating to this facility.

7. Capital stock:

(a) *Authorized:*

4,000,000 preference shares, redeemable at Cdn. $0.10 per share, non-cumulative dividend of 5% of redemption amount

Unlimited common shares

(i) *Preference shares:*

Preference shares were redeemable at Cdn. $0.10 per share at any time at the option of the directors of the Company with a fixed non-cumulative dividend rate at Cdn. $0.005 per share. During 1998, the remaining 1,033,855 preference shares were redeemed. As at December 31, 1999, no preference shares were outstanding.

(ii) *Class A common share purchase warrants:*

The holders of the Class A common share purchase warrants are entitled to purchase up to 5,800,000 common shares at a price of Cdn. $0.50 per share. These warrants are exercisable, in whole or in part, at any time and from time to time, on or before January 2, 2001. During the year, 400,000 common shares were issued under the terms of the warrants and as at December 31, 1999, the holders can purchase 5,400,000 common shares under the terms of the warrants.

(iii) *Series B warrants:*

Each warrant entitles the holder to purchase one common share at a price of Cdn. $2.50 per share for a five-year period, expiring August 31, 2001. During 1998, 97,000 warrants were exercised. As at December 31, 1999, no Series B warrants were outstanding.

(iv) *Series C warrants:*

Each warrant entitles the holder to purchase one common share at a price of Cdn. $5.00 per share for a five-year period, expiring February 10, 2002. As at December 31, 1999, there were 160,000 Series C warrants outstanding.

(v) *Compensation warrants:*

The Company had issued 1,500,000 compensation warrants to sales agents for their services in obtaining equity financing for the Company. Each compensation warrant entitled the holder to purchase one common share of the Company at a price of Cdn. $0.50 per share and expired on January 9, 1999. During 1998, 400,000 warrants were exercised. As at December 31, 1999, no compensation warrants were outstanding.

(b) *Normal course issuer bid:*

In May 1999, the Board of Directors approved the repurchase and cancellation of up to 425,000 of the Company's outstanding common shares for the period commencing May 13, 1999 and ending on May 12, 2000. During the year, the Company repurchased and cancelled 48,000 common shares for a total cost of $572,000, of which $556,000 representing the excess of purchase price over stated value, has been charged to retained earnings.

8. Stock option plan:

Under the stock option plan, the Company can grant options to directors, officers, other key employees and consultants to purchase common shares. The plan, which was amended on June 21, 1999, provides that a maximum of 1,500,000 common shares may be issued. The option price may not be less than the fair market value of the shares. Fair market value is calculated as the average of the highest and lowest share prices of the common shares on the day the option is granted. Options typically vest over a period of three years and the term of the options may not exceed five years.

(Tables in thousands of U.S. dollars, except per share disclosure and where indicated otherwise)

8. Stock option plan (continued):

Details of stock option transactions are as follows:

	1999		1998	
	Number of options	Weighted average exercise prices of options	Number of options	Weighted average exercise prices of options
		(Cdn. $)		(Cdn. $)
Options outstanding, beginning of year	949,800	$ 9.93	801,500	$ 8.07
Granted	471,600	17.15	212,900	15.88
Exercised	(147,517)	7.06	(47,700)	4.35
Forfeited	(202,933)	18.52	(16,900)	12.12
Options outstanding, end of year	1,070,950	$ 11.88	949,800	$ 9.93
Options exercisable, end of year	421,045	$ 8.87	656,433	$ 7.85

	Option outstanding as at December 31, 1999		Option exercisable as at December 31, 1999	
Range of exercise price	Number outstanding	Weighted average remaining life (years)	Number exercisable	Weighted average exercise price
$ 5.00 - $10.00	613,450	2.34	380,745	$ 7.79
$10.01 - $15.00	5,400	3.03	200	13.75
$15.01 - $20.00	382,500	3.13	25,000	18.00
$20.01 - $25.00	69,600	3.23	15,100	21.00
	1,070,950	2.68	421,045	$ 8.87

9. Commitments:

The Company has entered into lease agreements for premises expiring at various periods up to April 30, 2004. The future minimum annual rental payments on the operating leases are as follows:

2000	$ 399
2001	377
2002	371
2003	374
2004	126

10. Income per common share:

Income per common share is calculated on the basis of using the weighted average number of common shares outstanding during the year.

Fully diluted income per share reflects income that would have been reported had all warrants, options and conversion rights been exercised at the beginning of the year.

	1999	1998
	('000s)	
Weighted average number of common shares outstanding	8,570	8,396
Weighted average number of common shares outstanding - fully diluted	15,420	15,298

11. Recovery of receivable:

During 1997, one of the Company's credit card processors experienced financial difficulties, which left them unable to meet their obligations to the Company. The total outstanding receivable from this processor was written down in 1997. The receivable was collected in full during 1998.

12. Income taxes:

The income tax provision differs from amounts which would be obtained by applying the Canadian statutory income tax rate to the income before income tax. The following explains the major differences between expected taxes and actual taxes:

	1999	1998
Income before income taxes and discontinued operations	$ 21,721	$ 17,559
Income taxes based on a statutory rate of 44.6%	$ 9,688	$ 7,831
Increase (decrease) in income taxes resulting from:		
Lower effective income tax rates of foreign subsidiaries	(8,090)	(7,021)
Non-recognition of tax benefit of losses	65	–
Other	46	36
Actual income taxes	$ 1,709	$ 846

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities at December 31, 1999 and 1998 are as follows:

	1999	1998
Future tax assets:		
Non-capital tax losses carried forward	$ 81	$ 16
Deferred financing charges	86	127
Capital assets	(57)	–
	110	143
Less valuation allowance	110	143
Net future tax assets	$ –	$ –

(Tables in thousands of U.S. dollars, except per share disclosure and where indicated otherwise)

13. Discontinued operations:

On January 5, 1999, the Company's wholly-owned subsidiary acquired the assets of Gamesmania for $270,000. The purchase price was allocated to computer equipment and acquired technology.

In December 1999, the Company decided to discontinue its Internet video gaming magazine business segment (Gamesmania). On December 9, 1999, the Company sold all the shares of Gamesmania to HIP for consideration of $1,155,000 (Cdn. $1,703,000), consisting of cash of $475,000 (Cdn. $700,000), 1,000,000 common shares of HIP and 250,000 warrants of HIP (note 4).

Summary financial information of the business segment is as follows:

	1999	1998
Revenue	$ 104	$ –
Loss from discontinued operations, net of income tax recovery of nil	$ (167)	$ –
Gain on disposal of discontinued operations, net of income tax expense of $275 in 1999	716	–
	$ 549	$ –

14. Fair value of financial instruments:

The carrying values of financial instruments, which consist of cash and cash equivalents, restricted cash, accounts receivable, reserves and deposits with credit card processors, funds held on deposit and accounts payable and accrued liabilities, approximate their fair values due to the short-term nature of these instruments.

The fair value of the investment in HIP, which is publicly-traded is determined by the closing market value of the investment. As at December 31, 1999, the quoted market value of the HIP shares were Cdn. $2.05 per share. The fair value of the investment in Electronic Card Systems Inc., approximates its carrying value.

15. Subsequent event:

On January 12, 2000, under the terms of the Class A common share purchase warrants the holders purchased 2,100,000 common shares of the Company for total proceeds of Cdn. $1,050,000 (note 7(a)(ii)).

16. Comparative figures:

Certain of the 1998 figures have been reclassified to conform with the financial statement presentation adopted in the current year.

(Tables in thousands of U.S. dollars, except per share disclosure and where indicated otherwise)

17. Differences between Canadian and United States generally accepted accounting principles ("GAAP"):

The Company's consolidated balance sheets and consolidated statements of income and changes in shareholders' equity and cash flows have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") which conform, in all material aspects applicable to the Company, with generally accepted accounting principles in the United States ("U.S. GAAP") during the periods presented. Additional disclosures required under U.S. GAAP are as follows:

(a) *Stock options expense:*

Under U.S. GAAP, there are alternative methods available for accounting for employee stock options, Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). The Company has elected to follow APB 25 and related interpretations in accounting for its employee stock options. The determination of compensation expense using the intrinsic value method as specified under APB 25 is not materially different from the compensation expense determined under Canadian GAAP.

SFAS 123 requires the disclosure of pro forma net income and earnings per share had the Company adopted the fair value method as of the beginning of its 1996 fiscal year. Under SFAS 123, the fair value of stock-based awards to employees is calculated through the use of option pricing models, even though such models were developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differ from the Company's stock option awards. These models also require subjective assumptions, including future stock price volatility and expected time to exercise, which greatly affect the calculated values.

The Company's calculations for options granted were made using the Black-Scholes option pricing model using a dividend yield of 0% and the following weighted average assumptions:

	1999	1998
Risk-free interest rate	5.43%	5.13%
Volatility	106%	106%
Expected life of options in years	3	3

Had compensation expense been determined based on the fair value of the awards at the grant dates in accordance with the methodology prescribed in SFAS 123, the Company's net income and earnings per share under U.S. GAAP for fiscal 1999 and 1998 would have been changed to the following pro forma amounts:

	1999		1998	
	As reported	Pro forma	As reported	Pro forma
Net income - U.S. GAAP	$ 20,561	$ 19,298	$ 16,713	$ 14,906
Net income per share - U.S. GAAP:				
Basic	$ 2.40	$ 2.25	$ 1.99	$ 1.78
Diluted	1.40	1.31	1.15	1.03

The effects on pro forma disclosure of applying SFAS 123 are not likely to be representative of the effects on pro forma disclosure in future years.

17. Differences between Canadian and United States generally accepted accounting principles ("GAAP") (continued):

(b) *Income before undernoted:*

Under U.S. GAAP and the financial reporting requirements of the Securities and Exchange Commission, all operating income and expenses, including the recovery of a receivable, are required to be included in any subtotal purporting to represent income (loss) from operations. Therefore, under U.S. GAAP, income from operations as cross-referenced from the income statement to this note would be as follows:

	1999	1998
Income from continuing operations	$ 21,721	$ 17,559

(c) *Calculation of earnings per share:*

Under both U.S. and Canadian GAAP, basic earnings per share are computed by dividing the net income for the period available to common shareholders as measured by the respective accounting principles (numerator), by the weighted average number of common shares outstanding during that period (denominator). Basic earning per share excludes the dilutive effect of potential common shares.

Fully diluted earnings per share under Canadian GAAP and diluted earnings per share under U.S. GAAP give effect to all potential common shares outstanding during the year. Under Canadian GAAP, fully diluted earnings per share are calculated assuming that the proceeds from the exercise of stock options are invested at an appropriate rate of return, and an imputed interest amount is added to net income for the year. The number of fully diluted shares outstanding represents the weighted average maximum number of potential common shares outstanding. Under U.S. GAAP, the weighted average number of diluted shares outstanding is calculated assuming that the proceeds from stock options are used to repurchase common shares at the average share price in the year. No adjustment is made to net income for imputed interest in calculating diluted earnings per share under U.S. GAAP.

The following table reconciles the numerators and denominators of the basic and diluted earnings per share computation under U.S. GAAP as required by SFAS 128 (in thousands except per share amounts):

	1999	1998
Basic net income per share calculation:		
Numerator for basic net income per share:		
Net income - U.S. GAAP	$ 20,561	$ 16,713
Denominator for basic net income per share:		
Weighted average common shares	8,570	8,396
Basic net income per share	$ 2.40	$ 1.99
Diluted net income per share calculation:		
Numerator for diluted net income per share:		
Net income - U.S. GAAP	$ 20,561	$ 16,713
Denominator for diluted net income per share:		
Weighted average common shares	8,570	8,396
Weighted average stock options and warrants	6,850	6,902
Common shares that could be purchased assuming that the proceeds from stock options and warrants are used to repurchase common shares at the average share price	(744)	(819)
	14,676	14,479
Diluted net income per share	$ 1.40	$ 1.15

17. Differences between Canadian and United States generally accepted accounting principles ("GAAP") (continued):

(d) *Comprehensive income:*

In June 1997, the Financial Accounting Standards Board issued Statement No. 130, "Reporting Comprehensive Income," or SFAS 130. SFAS 130 establishes standards for the reporting and disclosure of comprehensive income and its components in financial statements. Components of comprehensive income or loss include net income or loss and all other changes in other non-owner changes in equity, such as the change in the cumulative translation adjustment and the unrealized gain or loss for the year on "available-for-sale" securities. The effects of the components of comprehensive income are not significant, and have therefore not been presented.

(e) *Recent accounting pronouncements:*

In March 1998, the American Institute of Certified Public Accountants issued Statement of Positions (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." This SOP revised the accounting for software development costs and will require the capitalization of certain costs, which the Company has historically expensed. The adoption of SOP 98-1 in the year ended December 31, 1999 did not have a material impact on the Company's financial position or results of operations.

In June 1998, the Financial Accounting Standards Board issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," or SFAS 133. SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. SFAS 133 requires an entity to recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. SFAS 133 is required to be adopted for fiscal years beginning after June 15, 2000. Management does not believe that the adoption of this statement will materially affect its financial position or results of operations.

Corporate Directory

Directors and Officers

Austin Page	*Chairman, Director*
Andrew Rivkin	*President and CEO, Director*
Mark Rivkin	*Executive Vice President and COO, Director*
Harvey Solursh	*Chief Financial Officer*
Anatoly Plotkin	*Chief Technology Officer*
Jenny Solursh	*Senior Vice President*
Edwin Cohen	*Director*
David Cynamon	*Director*
Dennis Wing	*Director*
Robert Stikeman	*Secretary*

Management Team

Andrew Rivkin	*President and CEO*
Mark Rivkin	*Executive Vice President and COO*
Harvey Solursh	*Chief Financial Officer*
Anatoly Plotkin	*Chief Technology Officer*
Jenny Solursh	*Senior Vice President*
Robert Thompson	*Vice President, Marketing*
Nelson Lee	*Director, Finance*
Nancy Chan-Palmateer	*Director, Communications*

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Annual Shareholders' Meeting

May 25, 2000 at 4:00 p.m.
Hockey Hall of Fame
BCE Place, 30 Yonge St.
Toronto, Ontario

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